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# The Strength of Weak Ties:

How charitable trusts and foundations collectively contribute to civil society in North East England



**Community  
Foundation**  
Tyne & Wear and Northumberland

## **The strength of weak ties**

### **About the Author**

Tony Chapman is Director of Policy&Practice, St Chad's College, Durham University and an Honorary Professor in the Department of Sociology, Durham University

<https://www.stchads.ac.uk/category/research/>

### **Third Sector Trends Study**

The Third Sector Trends study was conceived and originally commissioned by Northern Rock Foundation with research conducted by the Universities of Southampton, Teesside and Durham. The Community Foundation Tyne & Wear and Northumberland was a co-funder of the research and is now responsible for its legacy.

The Community Foundation is now collaborating with partners including St Chad's College at the University of Durham, Power to Change, Garfield Weston Foundation and IPPR North to expand and continue the research.

All publications from the Third Sector Trends study are available free to download at this address:

<https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/>

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# 1 Introduction

The third sector in North East England is in good shape. There are around 7,000 third sector organisations (TSOs) and informal groups serving the interests of their beneficiaries. Much of the resource and potential of this large sector is freely given by people who offer their time and expertise as trustees and volunteers. More than 150,000 people deliver more than 10m hours of work at no financial cost to the region.<sup>1</sup>

The third sector cannot realise its potential without the injection of financial resources. Money is needed for staff wages and to pay for space, equipment and consumables needed to get things done. Some of these costs are met by TSOs from fundraising, endowments, investments, subscriptions, charging for services or delivering contracts. But self-generated income is insufficient to keep the sector going.

Grant funding provides a bedrock of additional funding for the third sector. More than 50 charitable trusts and foundations<sup>2</sup> inject financial resources into civil society in North East England. Each year, well over 4,000 grants are awarded with a combined value of at least £50m.

Leaders of TSOs tend to be ambitious and are generally very optimistic about their potential to win grants to help them get on with their work. Emerging evidence from the Third Sector Trends Study indicates that 32% of TSOs believe that grant income from foundations will increase in the next two years (of whom, 18% expect that grant income will increase 'significantly').

If demand for grants outstrips supply – then there will always be disappointment and complaint. This partly explains why debates about the local funding environment, even in the 'best of times', can be quite gloomy.<sup>3</sup>

The social marketplace is highly competitive. Leaders of TSOs must make 'claims' on what they regard as important priorities and 'promises' on what they can do to tackle these issues. And because so many TSOs work in the same areas, on similar or inter-related issues, clear sector-wide priorities are hard to discern.

Foundations therefore face a difficult task. They cannot award grants to every TSOs which asks for one because there is not enough money to go around. So they must make choices. The fact that decisions must be

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<sup>1</sup> Data from Third Sector Trends 2016: *Digest of Findings from Third Sector Trends in North East England*, (2017) Newcastle: Community Foundation serving Tyne and Wear & Northumberland.  
<https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2017/09/Third-Sector-Trends-in-North-East-England-2017-1.pdf>

<sup>2</sup> Hereafter, the term *charitable trusts and foundations* will be contracted to 'foundations'.

<sup>3</sup> For example, in the mid-2000's when state investment in the third sector was at its zenith, there remained much room for complaint about the perilous finances of TSOs. See: Johnstone, E. and Streather, J. (2006) *INVEST 2006 Campaign* The 'Heineken' Factor: reaching the parts that Government can't reach The role and contribution of voluntary and community organisations to regeneration in the North East of England, Newcastle: Invest 2006 Campaign, Newcastle-upon-Tyne, VONNE.



made implies that priorities are set on what should or should not be funded. This means that foundations do not merely 'serve' civil society – they 'shape' it too.

This report is about the contribution that foundations make to civil society by channelling money into TSOs. Its purpose is to look at how foundations set priorities, what kinds of awards they make, where they distribute money and how they appraise whether benefit has been produced.

It is not, though, the purpose of this report to do a technical mapping exercise - where foundations are compared and contrasted. Instead, its aim is to make a useful contribution to broader debate about the 'funding environment'. It will do this by taking a *dispassionate* 'big picture' perspective on the work of foundations. In so doing the report asks a hypothetical question.

***'Should foundations work together more closely, with shared strategic objectives in mind, to maximise the benefit to North East England from their collective effort?'***

Or, to reverse the question

***'Is more social value produced if foundations work in complementary ways, as autonomous bodies, to distribute their resources to causes which are important to them?'***

These hypothetical questions are far too simplistic. It is not a clear cut issue of whether or not foundations should throw themselves behind a shared strategy – hook, line and sinker. Of course, many foundations do work together more or less formally from time to time when they agree that it is feasible and productive to do so – but not to the extent of losing their autonomy.

Sometimes foundations choose to work alone and sometimes they choose to work together. Either way, it can draw criticism when foundations draw boundaries around their activities or put up barriers to hold back the tide of demands placed upon them. To be fair, foundations have to do this to some extent - without these forcefields – their work would be unmanageable.

By asking these big questions, however, it is possible to get under the surface of many other issues which foundations must address. To do that, this report will be structured around a critical appraisal of 'popular narratives' about what is happening in the funding environment.

- 'The demand for grants is insatiable.'
- 'We can't get core funding.'
- 'It's all about impact assessment.'
- 'They don't give many grants around here.'

This report casts a critical eye over the way the funding environment is working in North East England as a whole. Its conclusion is clear. The 'collective effort' of foundations has a big impact on the wellbeing of civil society in the region. Without the need of formal coordination or firm shared strategy, foundations distribute their finite resources as carefully, effectively and evenly as they can.

Some foundations are based in the region, some operate nationally. Some are very large, others very small. But what they have in common is a desire to operate autonomously - setting their own objectives and practice preferences.

As such, foundations generally eschew the idea of building 'strong ties' with shared strategies and associated operational constraints. Instead they choose to maintain 'weak ties' which, this report argues, makes their relationships stronger and ensures that their collective impact across the region is greater.



## 2 Research methods

The research project involved several elements of work:

- Analysis of evidence on the extent and patterns of distribution of funding in North East England using data from Third Sector Trends and 360° Giving.
- An orientation discussion with the Association of Charitable Foundations in September 2018.
- An assessment of the published procedures associated with grant applications in each of the 25 foundations included in the study.
- Comparative analysis of the most recent reports of 24<sup>4</sup> charitable trusts and foundations to the Charity Commission.
- Comparative analysis of the websites of 25 foundations to determine how priorities, policies and practices are publicly communicated.
- Appraisal of news stories on participating foundations collected from Google searches to determine the range and content of media exposure sought or gained.
- In-depth interviews with 25 national and regional foundations took place between October 2018 and July 2019.
- Seminars in London and Newcastle with foundations to debate preliminary findings from the research.<sup>5</sup>

Analysis of the evidence has taken place in three stages. The first stage was to get an understanding of how the funding environment works in practical terms. Some of that material is presented in this report to add context to the key findings.

It was not the intention of this research to present a structured account of how individual foundations work, nor to map where or evaluate how they distribute finance to the third sector in North East England. Preliminary work on the structure and dynamics of the funding environment was, instead, undertaken to inform the interpretation of in-depth qualitative interview material which was subsequently collected.

Once the initial analysis was complete and key conclusions drawn, findings were tested with research participants in two formal meetings in Newcastle and London. Following that phase of the research, this final report was produced.

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<sup>4</sup> One organisation which was publicly described as a 'foundation' was not an independent legal entity, but was a department of a major international corporation. Therefore it was not possible to look at annual reportage of accounts.

<sup>5</sup> The first seminar was held at Community Foundation serving Tyne & Wear and Northumberland on 10<sup>th</sup> May 2019, the second was held at Pilgrim Trust, London on 16 May 2019. The participants were not limited to the 25 foundations which took part in the study. Twenty-two representatives from foundations took part in the seminars.

## 3 The funding environment

This section provides a brief introduction to five key issues which underpin the substantive analysis in Sections 4 – 7 of the report.

- How to define the boundaries of civil society
- Resources in the funding environment
- The participants in the funding environment
- The distribution of financial resources
- The production and consumption of value

### 3.1 What is civil society?

Civil society in the UK is an enduring and powerful force. And yet, a clear definition of ‘civil society is hard to pin down.’<sup>6</sup> So it is worth taking a moment to think about why this is the case, by looking specifically at issues surrounding its *identity, structure, components, purpose* and *dynamics*. This will help to get a better understanding, when analysis of the research evidence begins in Section 4, of the way foundations choose to work in this complex arena.

Definitions of civil society are contested because this arena has ‘fuzzy’ boundaries. Indeed, the organisations which influence the funding environment contribute to this fuzziness because some are external to civil society, some straddle the boundary between civil society and other sectors, and some are firmly rooted in civil society.

From the perspective of TSOs, it is often easier to define *what civil society is not* rather than *what it is*:

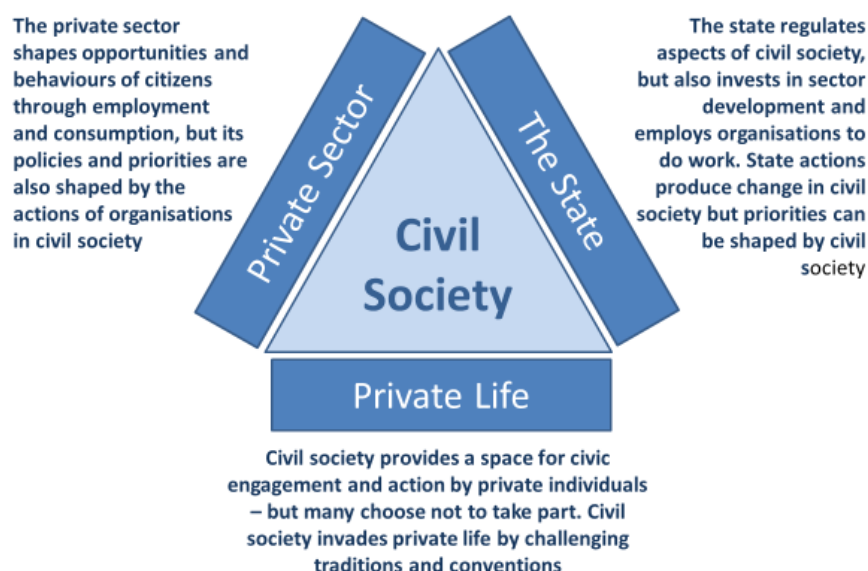
- TSOs differentiate themselves from private-sector companies because they are not driven primarily by financial profitability – instead they prioritise the creation of social, cultural or environmental value.
- TSOs distinguish themselves from private individuals because they have come together with a shared interest to achieve a mission which transcends notions of personal self-interest.
- TSOs position themselves as independent entities which are separate from the state – often claiming that they exist to remedy problems that have gone unrecognised, been ignored or even caused by government.

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<sup>6</sup> See: Kendall, J. and Knapp, M. (1994) ‘A loose and baggy monster: boundaries, definitions and typologies’. In: Hedley, R., Davis Smith, J. and Rochester, C. (eds.) *Introduction to the Voluntary Sector*. London: Taylor and Francis.

Civil society<sup>7</sup> occupies ‘the space in between’ these other powerful forces – as indicated in figure 3.1.

Figure 3.1 **Civil Society as the ‘space in between’<sup>8</sup>**



Civil society is not structured systematically – as if all the component parts fit together like a jig-saw. Indeed, there is little agreement about which organisations should or should not be included in the domain of the ‘third sector’.

Some argue, for example, that cooperatives, social enterprises and community businesses constitute separate sectors or sub-sectors. Some charities are excluded from some accounts of the sector (such as NHS Foundation Trusts, universities or public schools) because they are not thought to be serving social purposes in the same way as other charities.

Civil society is a domain within which groups and organisations practice in many ways. Practice is not, however, just a matter of choosing how to deliver objectives from a list of options. Instead, approaches to practice often infer deeper meaning about the kind of organisation they are – and how this differentiates them from other organisations doing, ostensibly, the same thing. Arguments over practice preferences also produce

<sup>7</sup> The definition of civil society has been the subject of academic debate for many years. Consensus on an exact definition of civil society is elusive, but most commentators agree that civil society is different from the state and necessarily must be separate. As an entity, civil society is sustained through the existence of relationships which are built on trust and reciprocity rather than formal or legal constraints. It provides informal mechanisms for conflict resolution, problem solving and co-operation. In sum, civil society provides the arena within which voluntary action flourishes, often to the benefit of society as a whole but also to the benefit of individuals and interest groups which both gain and can inject social capital into civil society through their association.

<sup>8</sup> This model of civil society is developed from work by Evers, A. and Laville, J. L. (2004) ‘Defining the Third Sector in Europe’ in A. Evers and J.L. Laville (eds.) *The Third Sector in Europe*, Cheltenham: Edward Elgar Press. A more recent and potentially influential contribution defines civil society as a ‘third pillar’ alongside the state and private sector. This analysis is less convincing as it pays insufficient attention to the blurred boundaries between sectors and over-stresses the extent of homogeneity of the ‘third pillar’. See Rajan, R. (2019) *The Third Pillar: the revival of community in a polarised world*, London: William Collins.

competition – even when organisations broadly agree on the value of their social mission.

It is rarely possible, even, to define the component parts of the sector as firm entities. For example, TSOs of similar size, which work towards the same social purpose and adopt the same legal form may operate in completely different ways. Some resemble private businesses and engage in trading activities to produce financial profits which they can reinvest in social purposes, while others reject the idea of trading because they vigorously oppose the principal of financial profitability.

Civil society has a shared interest in producing social benefit. But it is a competitive arena. All organisations and groups make 'claims' about the value of their work and believe that the cause they champion is as or more important than those pursued by other TSOs.

Civil society is full of imaginative, creative, committed, ambitious and determined people who want to get things done about an issue which is important to them. Competition to win influence and resources is therefore intense. This makes it virtually impossible for civil society as a whole to agree on priorities apart from sustaining their right to organise and act as they choose within the realm of civil society.

Ambitions to 'resolve' problems are easily thwarted: if one problem is tackled another one will come along soon after. The iteration of claims and counterclaims is as inevitable as it is inexorable.

Finally, civil society is characterised by its plurality – but that does not mean it is chaotic. Some organisations and groups vigorously defend their autonomy and refuse to get involved in partnership, collaboration or co-production, while other TSOs enthusiastically embrace the idea of working with other organisations in all aspects of their work. The majority of TSOs mix and match approaches – sometimes this is driven by principle and sometimes by contingency.

Civil society has the capacity to *advance, ameliorate or resist* changes brought about by the market, state or private individuals. But civil society also *produces* change by challenging the status quo.

Ambitions to 'resolve' problems are easily thwarted: if one problem is tackled, another one will come along soon after. Similarly, civil society can never claim to make society better for everyone because action to improve the situation of one group may make things worse for others who feel that their privileges have been eroded or their plight unrecognised. The iteration of claims and counterclaims is as inevitable as it is inexorable.

### 3.2 Resources in the funding environment

Organisations in civil society have to garner and manage resources to achieve their objectives. TSOs tend to be led and run by people who want to achieve ambitious objectives, so there will never be enough resource around to meet the needs of the sector as a whole.

Foundations exist, primarily, to dispense money to TSOs. To manage that demand – choices must be made – depending upon the values and resources of the funding organisation.<sup>9</sup> These choices, in turn, frame the way the funding environment works.

<sup>9</sup> These points were developed further in a Third Sector Trends working paper: *On the Money: how does the way third sector organisations think about money affect the way they work* (2013). Newcastle: Community Foundation

Financial resources are drawn into or are produced by civil society in many ways, so it is hard to pin down a precise definition of the ‘funding environment’ or to quantify its components and scale.<sup>10</sup> It is useful, though, to consider in general terms the sources of funding which are injected into civil society and the ‘types’ of organisations or individuals who distribute that money.

As indicated in Figure 3.2, sources of finance include ‘**general taxation**’, ‘**corporate wealth**’, ‘**private giving**’ by individuals and ‘**public donations**’ accessed via charitable fundraising.

- **General taxation:** state finances derive primarily from taxation. Political decisions about the distribution of state resources are shaped by a mix of pragmatic, contingent and ideological factors. The state positions itself as a democratically accountable system – therefore decisions about the allocation of resources are often presented in universalistic and utilitarian terms – but the reality can be different with some members of the population benefitting more than others.
- **Corporate wealth:** businesses accumulate wealth by making profits from the production of goods and services for sale. Private sector businesses channel money into civil society via direct corporate social responsibility (CSR) initiatives or indirectly via corporate foundations. Motivations to engage in CSR or to fund corporate foundations vary, but are often underpinned by core business interests.
- **Private giving:** private wealth may have been endowed following the death of wealthy individuals or be given during their lifetime. The allocation of funds to causes or issues can be direct – as in ‘individual philanthropy’ – or mediated via family foundations and community foundations.
- **Public giving:** such funds arrive in civil society via fundraising campaigns by individual civil society organisations, crowd funding campaigns, pay-roll giving organised by employers or less directly via gambling on lotteries and raffles. The people who give or gamble money rarely have any direct control over the way funds are dispensed.

With these distinctions in mind, Figure 3.2 presents a ‘rough-and-ready’ taxonomy of funding organisations – all of which operate in North East England.

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serving Tyne & Wear and Northumberland. <https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2017/09/on-the-money-final.pdf>

<sup>10</sup> Terminology to define the funding environment varies. Currently it is vogueish to use expressions such as the ‘funding ecology’ or ‘funding ecosystem’. Both terms implicitly suggest that equilibrium or balance may be possible and desirable. Given the exploratory nature of this discussion, I have opted to use a less politically loaded term: ‘funding environment’.

Figure 3.2 **Participants in the funding environment**



The way institutions fund TSOs varies, to some extent, depending upon their location in relation to civil society.

The state and private businesses sit outside the boundaries of civil society. Individual philanthropists are private individuals unless they set up a foundation. Lottery and grant aided foundations sit on the boundary between sectors. While family foundations and community foundations are situated within civil society.<sup>11</sup>

While foundations share common characteristics, no two foundations are the same. Their objectives, policies and practices vary to meet their own priorities. Some foundations prefer to provide core funding while others prefer to provide project or capital funding. Some foundations want to form productive relationships with the TSOs they fund, while others keep their distance. Some foundations are committed to the idea of impact measurement, while others trust in their professional judgement. Some foundations favour long-term commitment to TSOs while others prefer more ephemeral levels of engagement.

Many foundations, and not just the larger ones, do a bit of everything – choosing from a range of options to meet specific purposes. Some foundations stick quite rigidly to their traditions, while others are on a journey – moving from one set of policy and practice preferences towards another set. Indeed, this report could be devoted to a comparative analysis of approaches to policy and practice, mapping why, how and where resources are distributed.

To do so would distract attention from the primary objective of this research – which is to get a big-picture understanding of the structure and dynamics of the funding environment in the context of continual social, economic, cultural and environmental change.

<sup>11</sup> In Appendix 1, a brief definition of each of the nine institutional types is provided.



### 3.3 Distributing financial resources

All the foundations consulted in this study wanted to maximise benefit from the financial resources they dispensed: they wanted to 'spend their money well'.

Foundations dispense money in several ways: by giving grants, purchasing services and making loans. All approaches require considerable effort and expertise. Most foundations did this work in-house by employing staff to manage their programmes, but in some cases, this work was delegated to community foundations, to expert panels, or to large national TSOs with specific areas of expertise.

Whichever approach was adopted, in all foundations there was a strong desire to keep the costs of dispensing money within limits. This necessarily reduced their capacity to assess applications and to monitor or evaluate the progress of TSOs in achieving the objectives they had been awarded money to achieve. Keeping these conflicting priorities in balance was not easy.

- **Grant making:** was the principal activity in all the foundations consulted. Grants were given in a variety of ways: including, for example, unrestricted or restricted funds, short or long-term grants. Grants were given for many purposes such as: capital investments, project funding, core funding costs and so on. Most foundations defined the broad areas of benefit they were prepared to fund – but most awards were made for purposes which were defined specifically by TSOs when they made grant applications.
- **Purchasing services:** was fairly common amongst the larger foundations. Foundations issued contracts mainly to TSOs but also to private sector businesses to deliver services such as leadership programmes, training and development programmes to improve organisational capability, research and consultancy services, information technology development programmes, and to TSOs to deliver services to beneficiaries.
- **Making loans:** was a relatively uncommon approach to dispensing money. Loans could be made to TSOs to buy services or equipment they needed with which they could make a financial return. Other loans were associated with 'social investment' initiatives and involved TSOs agreeing to deliver clearly defined services to beneficiaries – sometimes on a payment-by-results basis. Such initiatives could involve several foundations working together with private sector organisations and government agencies.

Given its 'big picture' orientation, this report is concerned with the most common approach to funding – making grants. Reference will be made to loans and the purchase of services only where relevant.



### 3.4 The production and consumption of social value

Foundations want to know that their funding produces valuable work by TSOs and leads to beneficial social outcomes. Appraisals of impact can be based on professional 'judgement' gained from observation and experience, or on technical 'measurement' of evidence.<sup>12</sup> Whether foundations rely primarily on judgement or measurement, distinctions can be drawn between forms of value and how they may apply to social phenomena.

Four forms of value are crudely defined as follows:

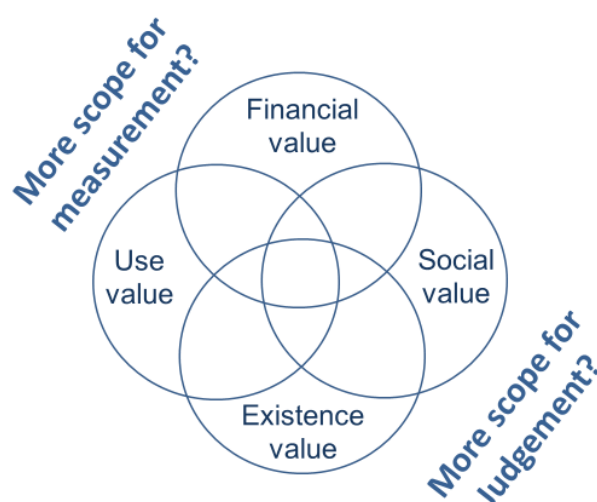
- **Financial value:** where direct financial return or gain can be measured either through the *production* of financial value (e.g. the generation of a profitable enterprise) or the *saving* of financial costs (e.g. lowering the level of demand on costly service provision).
- **Use value:** where value is measured by the *number* of people who use a service such as a library or sports centre, and/or through measures of the *quality* of the experience people report when accessing such services. Assessing the longer-term direct *impact* such experiences have on other aspects of users' own or others' lives is usually beyond the bounds of measurement.
- **Social value:** where value is produced by enriching the social or cultural life of individuals, communities or a nation. Effective measurement would depend upon agreement of what constitutes valuable social attitudes and behaviours or cultural experience (compared with other activities which are regarded as less valuable).
- **Existence value:** where value is attributed to something which is known about but cannot be used personally. This could include a site of scientific or ecological interest which *cannot* or *should not* be accessed, but is valued nevertheless. Existence value can also be attributed to historical entities – such as architecture, art or industries where strong values are associated with them.

As Figure 3.3 suggests, forms of value intersect – which makes it difficult to determine which aspect of value has been produced, or the extent to which forms of value have been produced as a 'result' of an intervention.

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<sup>12</sup> It is easy to under-estimate the value of 'judgement' on the basis of its inherent 'subjectivity'. But it is just as easy to over-emphasise the status of measurement of evidence. The reality is that assessing value creation through the use of evidence can only happen if a clear (but subjective) definition of what constitutes 'value' has been reached.

Figure 3.3. Realms of value



All approaches to the appraisal or measurement of impact implicitly or explicitly embrace one or more of these notions of value.<sup>13</sup> Foundations take different views on how to make judgements about or collect evidence to demonstrate impact in value terms.

Some foundations have firmly embedded approaches to measurement of value which are rigidly adhered to and frame the way the foundation thinks and works. But in most foundations, a more flexible approach is taken, where conceptions of value and approaches to appraising impact are mixed and matched on a pragmatic basis to meet specific needs.

The following sections of the report look at the complexities surrounding making judgements on what constitutes value and whether TSOs are producing it as a result of grant awards.

<sup>13</sup> There is a large academic and policy literature on the definition and measurement of value. A useful recent contribution has been offered by Mulgan, G., Breckon, J., Tarrega, M., Bakhshi, H., Davies, J., Khan, H. and Finnis, A. (2019) *Public value: how can it be measured, managed and grown?* London: Nesta. There are many methodologies on offer to measure value, such as descriptive models of causation adopted in 'theories of change' which may result in impact; complex manipulation of evidence and predictive modelling in social return on investment strategies, and so on. Whichever approach is adopted, results can be contested depending on the value position of the observer. For further discussion, see Third Sector Trends discussion paper: *Measuring Impact: easy to say, hard to do*. Newcastle: Community Foundation serving Tyne & Wear and Northumberland. <https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2017/09/Measuring-Impact-easy-to-say-hard-to-do.pdf>

## 4 “Demand for grants is insatiable”

The next four sections of the report present substantive findings from the research. The intention is to get under the surface of ‘popular narratives’ about the funding environment in North East England. We need to do this, because popular narratives can be based on falsehoods or myths which develop lives of their own.

If debates about the funding environment are built on insecure ground, we need to know why and what the consequences are. Then debates can be reframed on the basis of a more realistic understanding of what is possible and desirable.

Often, in third sector debate, assumptions are made that demand for grants is insatiable. Demand for grants is certainly high. In North East England, it is estimated that over 4,300 TSOs applied for at least one grant in 2016. The success rate in winning at least one grant is around 90% - and that level of success varies little by size of organisation (See Table 4.1)

Table 4.1 Demand for grants in North East England (2016)

	Estimated % TSOs which applied for a grant	Estimated number of TSOs in NE	Estimated number applying for grants <sup>1</sup>	Estimated number winning grants <sup>2</sup>	Success rates at winning at least one grant
<b>Small TSOs</b> (under £50,000 income)	50%	4,550	2,275	2,100	92%
<b>Medium TSOs</b> (income £50,000 - £249,999)	85%	1,750	1,450	1,300	90%
<b>Larger TSOs</b> (income above £250,000)	80%	700	600	500	83%
<b>North East England</b>	<b>65%</b>	<b>7,000</b>	<b>4.295</b>	<b>3.900</b>	<b>91%</b>

1 Estimates on the number of TSOs applying for grants, source: Third Sector Trends 2016

2 Estimates on the number of TSOs receiving grants: sources: Third Sector Trends 2016, 360° Giving, September 9<sup>th</sup>, 2019

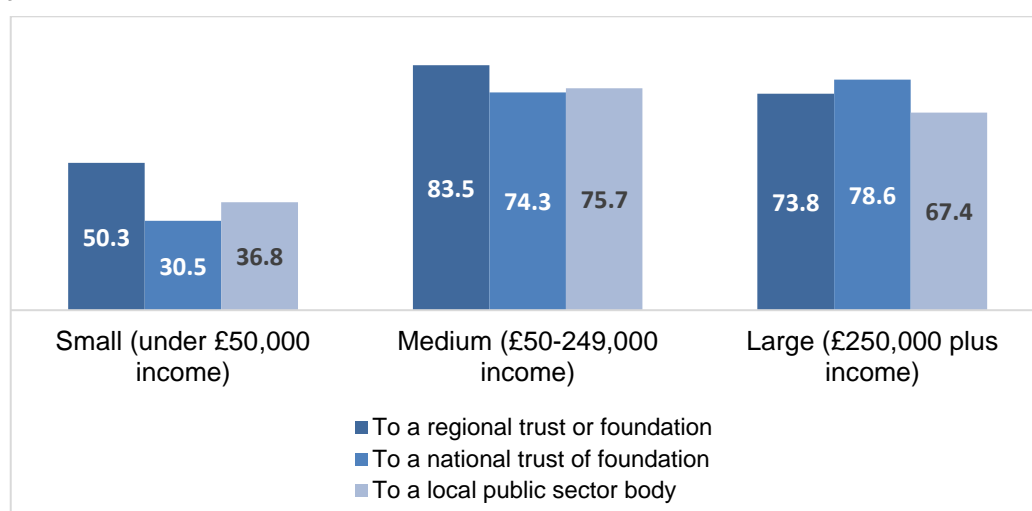
While demand for grants from TSOs is certainly high, it is not universal. In 2016, around a third of TSOs did not apply for a grant in the previous two years (see Figure 4.1).

- Smaller TSOs were the least likely to have applied for grants: 50% applied to a regional trust or foundation compared with just 30% applying to a national foundation. Just over a third (37%) applied to local public sector bodies for grants.
- A majority of medium sized TSOs applied for grants in the previous two years: 84% had applied to regional foundations

compared with 74% applying to national foundations. About 76% applied to a local public sector organisation.

- Larger TSOs were less likely to have applied for grants than their medium sized counterparts, but they were more likely to apply to national foundations (79%).

Figure 4.1 **Percentage of TSOs which applied for at least one grant in the previous two years**



(Source Third Sector Trends: 2016)

Many TSOs do not apply for grants, as indicated in the above analysis. But it is clear that some TSOs in North East England are prolific in their production of grant applications. According to 360° Giving data<sup>14</sup>

- The maximum number of successful grant applications by a single charity in 2017 was 14.
- The maximum number of successful grant applications was 56 for a single charity (all years).
- The 50 most prolific grant applicants won a total of 1,286 grants: an average of 25 grants per TSO (all years).

It would be a mistake to assume that bigger TSOs only apply for large grants. It is not unusual for the value of grant awards amongst such applicants to range from just £500 to large grants of £1m or more.

## Analysis

Amongst foundations, the general perception is that demand for grants is insatiable. This is not surprising, because all foundations involved in this study received many more grant applications from TSOs than they could possibly award. Many of the foundations used terms such as '*inundated*', '*overwhelmed*' or '*swamped*' when they talked about the number of applications they had to process.

<sup>14</sup> 360° Giving, all years, downloaded 9<sup>th</sup> September 2019.

*'it's a major undertaking to get this much money out of the door.'*

With a view to limiting the administrative costs of making awards, relatively small teams of staff were tasked with the job of processing grant applications – which could put them under significant pressure. As one foundation observed: ***'it's a major undertaking to get this much money out of the door.'***

To help manage demand, most foundations chose to focus on specific areas of benefit they would support and stipulated what kinds of grants they offered. Most foundations published clear guidelines on grant making criteria, but many complained that TSOs often submitted ineligible grant applications – raising their workload considerably.

Similarly, concern was often expressed about the quality of many applications. In some cases, for example, this was due to the failure of TSOs to articulate clearly what they wanted to do, while in others, 'scissors and paste' submissions revealed a lack of commitment by TSOs to show funders that they had taken the application process seriously.

Some foundations had begun to narrow the focus of their grant making. As one foundation stated: ***'There's too much demand, so we've had to narrow our focus to help manage the level of demand.'*** In this case, attention was being concentrated more specifically by the extent of need in communities:

***'These days we are much more needs-led than we were. So it's necessary to prioritise needs and inevitably this means rationing. We're not doing the "icing on the cake" nowadays.'***

Some participants expressed impatience with foundations which they felt were narrowing their focus too much. Indeed, one participant in the study argued that some foundations had moved in the direction of defining sector priorities 'by default' rather than as a purposeful strategy.

***'A lot of foundations seem to be narrowing their focus due to perceptions of greater competition and need. Is it true though? Do they need to narrow – or is it just an excuse to manage demand: they need to distinguish between bureaucratic convenience and strategic drivers.'***

Demand for grants is certainly high in individual foundations, but it should be recognised that this load is shared and that unsuccessful applications by TSOs will be recycled. Currently, there are more than 50 foundations regularly providing grant funding in North East England. High levels of demand indicate that there is a good deal of 'competition' amongst TSOs to win grants.

Consequently, foundations are drawn into a process of managing priorities when awarding grants. This could mean that some 'popular' causes may be attended to while others could be neglected. While few in number, some foundations saw it as their responsibility to invest in socially 'unpopular' causes such as, for example, working with sex offenders.

Most foundations were aware of 'fashion cycles' in grant making and recognised that TSOs could be vulnerable to shifts in priorities. Consequently, many foundations felt that they had a responsibility to think about how their work framed the operation of this competitive marketplace – realising that their decisions could have serious financial

*'They might not be brilliantly run, they may not be financially resilient, but they are critical in the sense of the community's shape and wellbeing and when they express the community's place in the world.'*

consequences for TSOs. One participant in the study explained that this can produce a conundrum that all foundations had to think about.

*'I have two ways of looking at this, which don't sit very comfortably together. I don't think that it's a bad thing that there's competition in the sector. I think we are sometimes too unwilling to let a charity fail – that should be allowed to fail. People are quite precious about charities in the way that they're not about businesses. I think the charity sector can improve, so I think that competition is no bad thing in that sense.'*

*'But on the other hand, I think when we look in our shortlisting process at their roots, how rooted they are, then we see that there are some charities that should not be allowed to fail if they play a critical role in the fabric of their community and keep it strong. They might not be brilliantly run, they may not be financially resilient, but they are critical in the sense of the community's shape and wellbeing and when they express the community's place in the world.'*

If competition is not managed to some extent by foundations, then the value of the work produced by the third sector may be undermined. However, it was not just a question of managing demand for grants - pressure could also mount when TSOs were competing for beneficiaries with whom to work.

As one foundation recognised, several TSOs which sought to support young people in North East England were applying for grants to offer similar kinds of support in the same areas to serve a single constituency of young people.

*'When you see charities competing for young people, it just seems bonkers when they're funded if they going to knock off other charities which have been running a youth club on that estate for years.'*

In this sense, foundations feel that they have a responsibility to look at the context within which grants are given rather than to concentrate wholly on the merits of an individual grant application. From a big picture perspective, it might well be asked if it is good enough that foundations 'feel' this individual sense of responsibility rather than engage in a formal process of managing their collective responsibility?

This would be a fair question if foundations made decisions entirely on the basis of their own whims. But that is not the case. The evidence from this study strongly suggests that those foundations which are based in North East England are alert to local circumstances and consider carefully the wider effect that choices about grant awards may have.

It is also clear that most national foundations operating in the region share this sense of responsibility and, using the intelligence they gain from trusted local contacts (often including other foundations based in the region) they carefully assess the implications of their funding – and especially so when making large grants.

Inevitably, things do not always work out well (and certainly not from the point of view of TSOs which are unsuccessful in grant applications). Indeed the research uncovered a number of 'horror stories' in circulation

about poorly placed large-scale grant funded programmes<sup>15</sup> which had dislocated or undermined the equilibrium of civil society at a local level.

From a local third sector point of view, negative stories such as these are usually associated with fears about 'big national' charities coming into the region.<sup>16</sup> The importance of 'horror stories' needs to be kept in perspective. And questions should be asked as to whether their re-circulation in and around civil society percolate civil society 'myths' about the funding environment.

The brute fact of it is that demand for grants is high (though not universal) and will remain so. This is a good thing, because it shows that TSOs are ambitious to do good work for their communities of place or interest. Early indications from Third Sector Trends research in 2019 show that more than a third of TSOs in North East England expect that their funding from foundation grants will increase in the next two years.<sup>17</sup> This means that disappointment is just around the corner for many TSOs – strengthening their belief that the funding environment is, for one reason or another, failing them.

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<sup>15</sup> While such stories were few in number, the majority were associated with government-led or driven programmes which appeared to pay little attention to the potentially negative consequences for the local third sector environment. An oft-quoted example is the National Citizen Service which has been accused of dislocating local services to young people by third sector organisations or leaching funding from local organisations.

<sup>16</sup> See, for example, evidence from a parallel study of the funding environment: Chapman, T. and Gray, T. (2019) *Striking a balance: how community businesses build effective working relationships with public, private and third sector organisations*, London: Power to Change.

<sup>17</sup> These percentages are indicative only, based on 538 responses to Third Sector Trends 2019.



## 5 “You can’t get core funding”

Debates about core funding often appear to be driven by a belief that its incidence is rare. The reason why that is the case, it is often claimed, is that foundations have been caught up in the groundswell of enthusiasm for investing in outcome-driven social programmes.<sup>18</sup>

Some foundations are ‘rediscovering’ the value of providing core funding and are encouraging others to do so. But the truth is that many foundations embedded the principle of providing core funding into their practices decades ago.

Core funding covers a wide range of organisational costs.<sup>19</sup> These include, for example, the costs associated with organisational leadership and management, the expense of reaping and managing financial resources, the cost of people development, maintaining buildings and keeping equipment up to date, and so on.

Such costs can be met in different ways, ranging from, ‘full cost recovery’ grants or contracts that take into account core costs; or unrestricted grants that help TSOs deliver their objectives but without stipulating precisely how the money should be spent.

In North East England, emerging evidence from Third Sector Trends indicates that about half of TSOs receive core costs from charitable foundations in one form or another. Larger TSOs, which have substantial core costs, are much more likely to be the recipients of such grants (50%) than very small TSOs, which tend neither to employ staff nor to have property assets (33%).

### Analysis

It is not easy to disentangle how restricted and unrestricted funding streams contribute to the impact TSOs make. This is because TSOs may achieve a mix of ‘hard’ and ‘soft’ outcomes as a result of one source of funding (or may do so in tandem with other programmes of funded work they are currently doing). Realms of social value intersect (see Figure 3.3) which means that the outcome of activities may be more or less directly attributable to specific sources of funding.

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<sup>18</sup> As discussed in the academic literature, the tendency of public sector bodies to manage relationships with TSOs in consistent ways has been exacerbated by the assimilation of a ‘new public management’ ethos in the last two decades. This has tended to shape the way public sector organisations frame questions about the ‘scale’, ‘value’ and ‘impact’ of all financial or in-kind exchange relationships with the local third sector. For useful critical reviews of the literature, see: Batley, R. and Larbi, G. (2004) *The changing role of government: The Reform of Public Services in Developing Countries*. New York: Palgrave Macmillan; Mongkol, K. (2011) ‘The critical review of new public management model and its criticisms’, *Research Journal of Business Management*, 5: 35–43; and, De Vries, M. and Nemec, J. (2013) ‘Public sector reform: an overview of recent literature and research on NPM and alternative paths’, *International Journal of Public Sector Management*, 26, 1, 4–16.

<sup>19</sup> Cairns, B., Mills, C. and Ridley, S. (2013) *Thinking about... core funding*, London, IVAR.

One participant in this study made it plain that the issues they chose to fund were complex and that, as a foundation, they had to rely upon TSOs' expertise to decide where to focus energy and how to get things done. This required them to stand back rather than direct activity.

***'We're responsive, demand led. We're not a shaper... It's very hard to disaggregate themes, such as loneliness for example, from other factors – so we look instead at the organisation's broad values. If they can mix and match priorities – allow them to overlap – we're comfortable with that.'***

***'Policy wins are more about luck than judgement, it's about being in the right place at the right time... so we have to give people the space and time to grow a policy voice.'***

Some foundations took this a stage further and looked at the situation from a wider perspective. For example, one foundation wanted to invest in TSOs so that they could influence policy and practice in other organisations in the areas where they worked. But they did so without determining how this should or could happen. Consequently, it was accepted that:

***'Policy wins are more about luck than judgement, it's about being in the right place at the right time... so we have to give people the space and time to grow a policy voice.'***

This is not to say that foundations were unconcerned about the value produced from investment in core funding. Reservations could centre on the level of impact such organisations may have and the extent to which they were prepared to produce and try out innovative ideas.

Consequently, some foundations would only invest heavily in TSOs they had developed a relationship with over a period of time and felt they could trust to spend their money well. In a number of cases, foundations spoke of working only with 'excellent' organisations.

But when exploring such statements, undercurrents of doubt could often emerge. There were concerns that TSOs may project themselves as proficient, dedicated and connected with the beneficiaries with whom they worked – but was this just a carefully orchestrated 'front' which may conceal less impressive practice on the ground.

As one foundation conceded:

***'We face very difficult choices. Do we pay attention to the quality and excellence of the organisation or do we focus on the potential social value? We need to be honest about these choices and can't defer the decision to anyone else.'***

This comment was underpinned by a concern that TSOs, which may not have established their reputation to the same extent, may be more productive in terms of their potential to produce social value. ***And so, sometimes we'll take a charity on at entry level and invest in them so that they can make progress towards excellence.'***

Other foundations which preferred to invest in organisations they had grown to trust voiced concerns that their long-term commitment of unrestricted funds could lead a TSO to become ***'too comfortable'*** with the arrangement and that this may result in ***'complacency'***.

From the perspective of foundations, the provision of core funding is an indication of the trust they are prepared to invest in TSOs to achieve good things without too much interference. But doing so can leave them with

nagging doubts about whether they have made the right decision, and whether to stick to that decision in the longer term.

*We don't get too squeamish about how dependent they have become on us, so we have no maximum period of supporting them [with core costs]... but it might not always happen, we might pull the plug, so we're always aware of the power dynamic.'*

The desire to spend well implies that foundations want to produce social value from the money they divest. The above analysis reveals some of the sources of uncertainty that might emerge about their judgements of what, where and in whom to invest.

These judgements can be called into question for all manner of reasons. For example, if social priorities shift from one area of benefit to another – then TSOs which attend to certain issues may become vulnerable. If foundations become more interested in innovative activity which may produce transformational change rather than 'keeping things going' by doing 'worthy but dull' work, then approaches to lending support may alter.

Foundations do not work in isolation. They watch what other foundations are doing.<sup>20</sup> They listen to ideas produced by think tanks and academics and take part in debates initiated by funding sector representative bodies and government department agencies. And so, when they consider sticking to their current practices or shifting onto new territory they do not do so in a vacuum.

Some fashions on how foundations should divest their money have a tremendous impact on funding sector debate. But as the next section shows, this does not mean that everyone follows suit when it comes to changing practices.

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<sup>20</sup> Following the seminars to debate findings in Newcastle and London, further discussion with one foundation in North East England focused on the extent to which the bridge between national foundations (based primarily in London) and regional foundations needed to be strengthened. In addition to regular informal contact, North East England foundations have structures to encourage wider debate (such as the North East Funders Forum and the Trusts and Secretaries Group). However, there are few opportunities for open debate between national and regional foundations. This study has helped foundations make some progress in this respect by opening new channels for debate and discussion.

## 6 “It’s all about impact assessment”

For some time, there has been a lot of political and media noise surrounding the imperative to measure the value of the contribution TSOs make to society. Recently, the pressure has stepped up with renewed calls to devise metrics to assess the social and economic contribution of third sector activity.<sup>21</sup>

Many approaches have been devised to gauge the social benefit produced by TSOs and those organisations which champion such techniques have been eager to accelerate their use. The ubiquity of claims about the value of impact assessment do not, however, match its incidence.

Good quality project monitoring and evaluation is expensive.<sup>22</sup> But as shown in Table 6.1, scope for serious impact assessment applies to just 3% of grants made in North East England, while lighter-touch evaluation may be feasible for a further 2% of grants which are valued in the range of £50,000 - £100,000.

Amongst the 107 grants made in North East England in 2017 which were of sufficient size to warrant evaluation, their collective value was around £47m.<sup>23</sup>

Table 6.1 **Scope for use of impact assessment techniques**

<ul style="list-style-type: none"> <li>Below £500 = 127</li> <li>£500 - £1,000 = 355</li> <li>£1,000 - £5,000 = 1,081</li> <li>£5,000 - £10,000 = 546</li> </ul>	<p>← No real scope to measure impact (81% of grants)</p>
<ul style="list-style-type: none"> <li>£10,000 - £50,000 = 417</li> <li>£50,000 - £100,000 = 65</li> </ul>	<p>← Some scope for assessing impact (16% or just 2%?)</p>
<ul style="list-style-type: none"> <li>£100,000 - £500,000 = 90</li> <li>£500,000 - £1,000,000 = 7</li> <li>£1m - £10m = 12</li> <li>£10m+ = 0</li> </ul>	<p>← Serious assessment only possible in grants of these sizes (3%)</p>

Source: 360° Giving, North East England 2017, downloaded 9<sup>th</sup> September 2019.

<sup>21</sup> Stowell, T. and O'Donnell, G. (2019) *The value of the charity sector: an overview*, London: Charity Commission. See also, Haldane, A. (2019) *The Third Sector and the Fourth Industrial Revolution*. Pro Bono Economics Annual Lecture. Royal Society, London. [https://www.probonoeconomics.com/sites/default/files/files/Andy%20Haldane%20-%20Pro%20Bono%20Economics%20Annual%20Lecture%20%282019%29\\_0.pdf](https://www.probonoeconomics.com/sites/default/files/files/Andy%20Haldane%20-%20Pro%20Bono%20Economics%20Annual%20Lecture%20%282019%29_0.pdf)

<sup>22</sup> The cost of evaluation and monitoring varies according to the needs of individual interventions, but a commonly used rule of thumb is that 5-10% of programme costs should be devoted to this purpose. In pilot programmes, the proportionate cost of monitoring and evaluation would be substantially higher.

<sup>23</sup> It should be noted that the 12 largest grants were all capital grants from National Lottery Heritage Fund rather than social programme interventions.

## Big versus small grants?

All foundations want to spend their money well because they feel a strong sense of responsibility for the communities of interest or place which they serve through grant making. But approaches differ when assessing if grants are being distributed fairly and whether they produce an appropriate level of social benefit.

Some foundations invest a good deal of energy into defining the potential impact of work they fund and expect that programme monitoring and evaluation techniques are adopted to demonstrate success. But they are very much in a minority. A majority of foundations prefer to rely on professional judgement based on observation and experience. They do so because that is the appropriate approach for the vast majority of the grant awards that they make.

This is not to argue that monitoring and evaluation work does not have its place. Impact assessment can and does work well when objectives are carefully thought through and techniques to assess impact are applied appropriately. In such circumstances, foundations offering large grants, contracts or social investment programmes, should invest in such techniques.

One foundation, for example, invested in the evaluation of a project which worked in the field of adult literacy where tangible evidence of improvement could be discerned. It was also ‘felt’ that improved literacy may help people to live their lives more effectively – but the evaluation work did not delve into the arena of predictive modelling of outcomes on the basis that complexity and unpredictability surrounded the lives of programme participants.<sup>24</sup>

Most foundations involved in this study made little use of formal approaches to impact assessment. Foundations tended to argue that the work they funded by most TSOs was so complicated that detailed scrutiny would be unlikely to yield convincing evidence. As one participant in the study remarked:

***‘It’s about not necessarily knowing the answer, it’s best not to presume too much about things. Good grant makers use judgement and proportionality in their decision making – they don’t hide behind plate-glass walls of conceit – as if they know it all.’***

Many foundations argued that it was more important to focus attention on the quality of relationship they had developed with TSOs they funded. As one participant argued:

***‘Actually, I’ve got no interest in measuring our impact. What I’m interested in is what relationship do we have with those charities, and what relationships they have with communities, other charities and the public sector. Then we can ask ourselves what we are sustaining. And expecting that sometimes it will fail, and not beating ourselves up about that. I don’t think it protects you from failure by having really strict criteria on impact and I think that a lot of the stuff that is generated is just put in a drawer and never read.’***

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<sup>24</sup> Predictive modelling generally makes assumptions about what may or may not happen as a direct or indirect result of a social programme intervention. Often such claims are made when programmes address ‘soft outcomes’ such as confidence building work with young people from less advantaged backgrounds.

One foundation, which had been heavily involved in promoting the use of complex approaches to impact assessment, was seriously rethinking its strategy. This shift in policy was led by an acceptance that the attribution of impact was much harder to do than expected - and that this could have sector-wide consequences:

***'We're at risk of producing a competitive environment for grant givers. Part of that behaviour is about claiming of achievement. If you've got one voluntary organisation and you've got five different funders all of which are contributing to its overall goal... your chances of getting attributed reporting are very slim. What you've got, basically, although we don't know it, is five funders sharing the same outcomes and deliverables.'***

***'If you've got one voluntary organisation and you've got five different funders all of which are contributing to its overall goal... What you've got, basically, although we don't know it, is five funders sharing the same outcomes and deliverables.'***

Most larger TSOs are accustomed to managing several pots of money from a variety of funders at any one time. Arguably, they must do this to limit the risk of losing momentum or closing down if they have 'all their eggs in one basket'. The likelihood is that the impact they have on the lives of their beneficiaries can be attributed to more than one funding pot – depending on how outcomes are defined. Faced with this situation, the study participant went on to remark that:

***'Rather than focusing on the attribution of evidence, we ought to start saying we'll share the outcomes. And because they're working in a very fluid environment where people have complex and changing needs, you just have to let the organisation get on with doing the best it can for those individuals. It's about how well they manage their money as an organisation, not attribution. That might be a problem for some funders, but it's probably the direction we need to go.'***

While the above comments reflected a changing approach to impact assessment in one foundation – it should not be assumed, in summary, that there is a general shift from formal evaluation towards professional judgement. The truth is that most foundations have never taken formal approaches to evaluation very seriously.

This is partly because most grants were far too small to justify the expenditure in such work. But also because foundations were doubtful about the extent to which such approaches could genuinely attribute impact as a direct consequence of the work they had invested in.

## **What value do small grants produce?**

Most grants, when assessed by volume of awards, are small. And grant makers do not, presumably, lose as much sleep about the impact of a £500 grant because they know it makes no sense to look too closely at what TSOs achieve with such a small sum of money.

With larger awards, as discussed above, foundations scale up their expectations on achievement, keep a closer eye on what is being spent, and expect to see evidence of impact. It is not surprising, therefore, that the newsworthiness of big awards shape debate on grant making.

A consequence of this focus on the *volume of money given* rather than the *volume of awards made* is that the impact of most awards may be



understated or even overlooked. As Table 6.2 shows, most awards are relatively small (under £10,000) but their cumulative value is modest compared with the biggest grants.

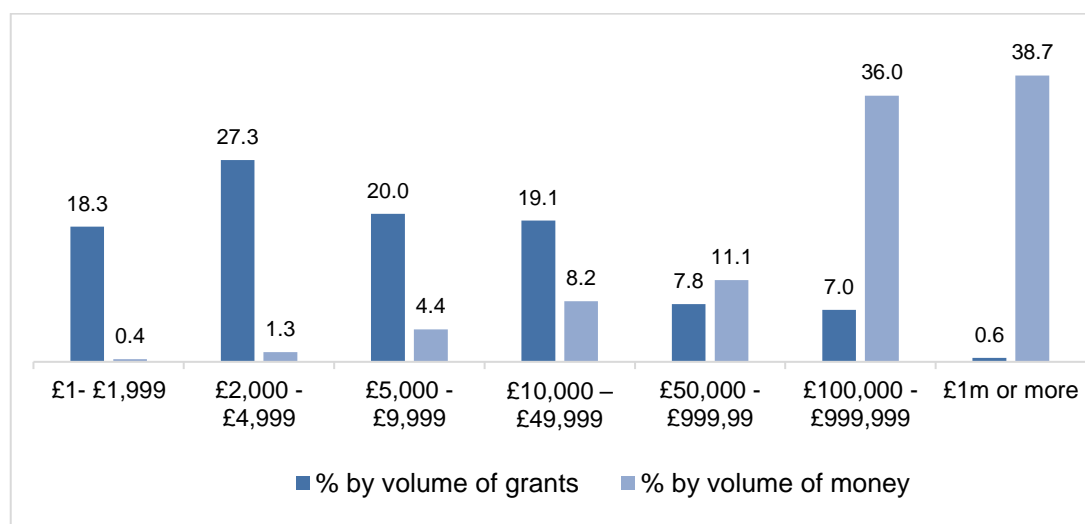
Table 6.2 **Number and value of all awards recorded North East England (360° Giving, all years)**

Size of grants	Number of awards	Total value of awards	Average grant value
£1-£1,999	3,736	£3,524,330	£943
£2,000 - £4,999	3,905	£13,218,440	£3,385
£5,000 - £9,999	5,583	£43,902,813	£7,864
£10,000 – £49,999	4,092	£81,761,847	£19,981
£50,000 -£999,99	1,600	£110,511,324	£69,070
£100,000 -£999,999	1,435	£359,639,513	£250,620
£1m or more	113	£386,547,614	£3,420,775
<b>All grants recorded</b>	<b>20,464</b>	<b>£999,105,885</b>	<b>£48,823</b>

Widespread preoccupation with the impact of big grants is explicable when looking at the overall financial value of grants. As shown in Table 6.2, grants valued above £100,000 absorb three quarters of the financial value of all grants. But they only constitute less than 8% of all grant awards.

But as Figure 6.1 shows, small grants represent the bulk of foundations' work: two-thirds of all grant awards are valued below £10,000 and 85% are valued below £50,000. The cost of attributing impact and assessing the value produced by these grants at an individual level would be colossal and, like as not, would also deflect TSOs from doing the useful work they had been given a grant to attend to.

Figure 6.1 **Percentage 'volume' of awards compared with percentage 'value' of awards (360° Giving, all years)**





If it is too expensive and intrusive to assess the value of small grants, how might their cumulative value be assessed? It is a difficult question because most of the 'energy' produced to do good work by very small TSOs comes from volunteers rather than paid employees.

It is possible to calculate in crude terms the amount of energy which is produced through voluntarism. Table 6.3 indicates the energy produced by TSOs of different sizes by estimating the number of hours 'given' by trustees and volunteers. Using estimates for the whole of the North East England, the analysis shows that the proxy 'salary value' produced by volunteers is enormous: especially so in very small TSOs.

This approach to the analysis has obvious flaws, but it is presented to make a very simple point: that small charities, using voluntarily given time, have the available energy to produce a great deal of social value proportionate to their income.

**Table 6.3 Estimates of hours and proxy financial value of volunteer time**

Organisation sizes	Estimated number of TSOs in North East England	Average TSO income by category <sup>1</sup>	Estimated number of volunteers in the NE	Volunteer hours produced	Proxy value of volunteer time at min wage per TSO
Micro (income £0-£9,999)	3,406	£2,889	72,500	5,219,500	£17,500
Small (income £10,000-£49,999)	1,763	£23,835	37,500	2,702,300	£12,800
Medium (income £50,000-£249,999)	1,017	£121,660	21,600	1,559,000	£16,500
Large (income £250,000-£999,999)	576	£488,605	12,300	883,400	£19,600
Big (income above £1,000,000)	237	£1,662,220	5,000	363,700	£31,800
Total	6,999	£2,299,209	148,000	10,727,900	

<sup>1</sup> A random sample of 5,000 charities was drawn down from the Charity Commission using Beta searches. The average income was calculated by category of TSO.

Generalised appraisals of the collective financial value of volunteering time in proportion to TSO income mask the fine detail of what is going on under the surface. It cannot be known, for example, if volunteers in smaller TSOs produce as much, or more value, than volunteers in bigger TSOs.<sup>25</sup> And, of course, this analysis excludes the social value produced by employees in larger TSOs.

Assessing value using financial proxies is popular in some circles. Certainly, benefits can be gained from doing so if it helps to raise awareness of the 'hidden value' of voluntarily given time – especially in smaller TSOs. At a sector-wide level, there may be a case for doing more of this, if it can produce credible evidence to convince policy makers to

<sup>25</sup> The existing evidence from Third Sector Trends indicates that in small TSOs, volunteers are much more likely to work unsupervised in small TSOs (78%) than in the largest organisations (44%). Similarly, 26% of the largest TSOs state that 'supporting volunteers often costs us more than the benefit we get from them', compared with just 9% of the smallest TSOs. *Digest of findings from the Third Sector Trends Study in North East England 2016* (2017: 22).

consider investing more heavily in those parts of the sector that appear to produce the greatest social value.<sup>26</sup>

Without becoming too distracted by methods of assessing value, the above analysis has been presented to make a simple – though often overlooked point – that modest grants, when awarded to smaller TSOs, may help to harness the energy of volunteers and, proportionally, produce as much or more social value as larger grants.

### Analysis

It is the domain of larger TSOs to tackle bigger issues on a grander scale. They do so by taking on grants or contracts to deliver services to the public on behalf of foundations, health authorities or local government. It is beyond the capability and capacity of smaller TSOs to do so and in any case, they are unlikely to want to engage in programmes of work which aim to produce impact on a higher scale.<sup>27</sup>

Interfering with the equilibrium of small charities by giving them too much money may also carry risks. As one research participant observed:

***‘Big grants change the shape and structure of organisations – it pushes the organisation to think about themselves in new ways which may not always be beneficial. It could lead them to an unnecessary level of professionalism. Foundations need to be careful about having ambitions beyond the means of organisations.’<sup>28</sup>***

***‘Governments are seduced by promises of transformation and put huge funding in where it isn’t proportionate – or they put too much money in too soon – and knock things out of shape.’***

Foundations know this, and only when making very large awards were they tempted to make claims about their potential to achieve substantive or transformational change. Most foundations recognised that taking this route was not an easy option – and especially so when it involved working closely with government to scale up impact. Indeed, some foundations felt that government had a tendency to get carried away with transformative ambitions:

***‘[governments] are seduced by promises of transformation and put huge funding in where it isn’t proportionate – or they put too much money in too soon – and knock things out of shape. We don’t put money in too fast because [if you do] before you know it they’ll be back again because everything breaks down all at once.’***

Clear solutions to complex problems are rarely available. Foundations recognise that opportunities, encouragement and support must continue to be channelled to people who need it – one way or another. They struggle with the vexed question as to whether this support should be ‘orchestrated’ systematically – but most come to the conclusion that this is not the option they want to take.

<sup>26</sup> At an organisational level, such exercises are more problematic because they can be more expensive to do than the value that is produced from a small grant. This is why, from the perspective of most foundations, informed professional judgement has to be employed when making decisions about grant awards and deciding whether or not these grants have the potential to produce valuable outcomes.

<sup>27</sup> In North East England, only 3% of the smallest TSOs engage in bidding for service delivery contracts compared with 50% of larger TSOs (*Digest of findings, ibid.* 2017:48).

<sup>28</sup> For further development of this point see: Chapman, T. (2019) *The social process of supporting small charities*, Durham, Policy&Practice. <https://www.stchads.ac.uk/research/research-news/the-social-process-of-supporting-small-charities/>

Social problems attract big thinkers. Prominent voices in political parties, think tanks and universities are attracted to the idea of producing radical solutions. But systematic and radical responses to pernicious social problems have a poor record of success if the benchmark of success is resolution. And even when great strides forward are made – new problems can emerge in unpredictable ways. This is the nature of complex societies.

The appeal of radical promises quickly become tarnished if their effect is to raise the stakes on what counts as success and set people up to fail. Achievements in most people's lives are proximate, desirable and realistic. What may look a pitifully small step forward from one person's perspective may be experienced as a giant leap by another.

The domain of 'success' within which foundations work, most of the time, is in the 'middle range': producing opportunities to do things that might not otherwise get done, lending support and encouragement where it is welcome and needed – chipping away carefully at issues is what most foundations do.

*'You can talk about transformation at an individual level, where this person gets a home and becomes safe, you can show that and that's great. But you can set people up to fail through transformation strategies if you're aiming higher than they can reach.'*

So it is not surprising that few foundations commit to the principle of achieving transformational change and keep ambitions in perspective. As one participant stated: ***'We're one of the bigger foundations, but the money we can give nationally is less than the cuts imposed on [a] City Council. We have to keep that in perspective.'***

Focusing on transformative change can lead to disappointment if objectives are unrealistic. ***'You can talk about transformation at an individual level, where this person gets a home and becomes safe, you can show that and that's great. But you can set people up to fail through transformation strategies if you're aiming higher than they can reach.'***

Achieving good outcomes for individuals, families and neighbourhoods sits at the core of most foundations' objectives when they award grants. Most foundations felt that grant making could make a real difference to people's lives – providing that ambitions were proximate, desirable and achievable.

***'When you look at an award of £10,000 and £1million, you're talking about a huge space between them in terms of what you can expect in terms of impact or about them defining KPIs. So while we're always talking about how we can be more 'joined up' with things, you realise that some gaps can't be bridged. But that doesn't mean that putting £10,000 into a village hall is irrelevant – it's huge for them – but we're not the experts on this, we just have to trust them to do the best they can with it. To be honest, that's how most of our money goes out of the door. So we're not always in the game of measuring impact, it's more about influence.'***

Most foundations take a realistic view about what they can achieve from grant making. They know that it is beyond the scope of their own resources and beyond the powers of the TSOs to which they award grants to achieve the 'unachievable'.

Rather than focusing on the contributions of specific programme interventions or on the work of individual TSOs, is it better, perhaps, to look at the process of 'accumulation' of social benefit? The next section turns attention to this issue by looking at grant making in localities.

## 7 ‘They don’t give many grants round here’

All foundations involved in this study felt that they should try to distribute grants as fairly as they could geographically. This happened when regional foundations worked at a local level, or operated on a wider scale. Most national foundations were also keen to distribute grants as evenly as they could across the regions – and if they felt that their grant making was not at the right level in North East England they were eager to do something about it.

Table 7.1 **Volume of grants given by population** (360° Giving, all years)

	Number of grants <sup>29</sup>	Population by area	No of grants per 1000 population
<b>Northumberland</b>	<b>3,588</b>	<b>319,000</b>	<b>11.3</b>
<b>County Durham</b>	<b>3,528</b>	<b>523,700</b>	<b>6.7</b>
<b>Tyne and Wear</b>	<b>9,259</b>	<b>1,128,900</b>	<b>8.2</b>
<i>Newcastle upon Tyne</i>	<i>3,427</i>	<i>295,800</i>	<i>11.6</i>
<i>Gateshead</i>	<i>1,669</i>	<i>202,400</i>	<i>8.3</i>
<i>North Tyneside</i>	<i>1,332</i>	<i>204,500</i>	<i>6.5</i>
<i>South Tyneside</i>	<i>1,141</i>	<i>149,000</i>	<i>7.7</i>
<i>Sunderland</i>	<i>1,690</i>	<i>277,200</i>	<i>6.1</i>
<b>Tees Valley</b>	<b>3,277</b>	<b>671,900</b>	<b>4.9</b>
<i>Darlington</i>	<i>488</i>	<i>106,300</i>	<i>4.6</i>
<i>Hartlepool</i>	<i>538</i>	<i>93,000</i>	<i>5.8</i>
<i>Middlesbrough</i>	<i>824</i>	<i>140,600</i>	<i>5.9</i>
<i>Redcar and Cleveland</i>	<i>712</i>	<i>136,000</i>	<i>5.2</i>
<i>Stockton-on-Tees</i>	<i>715</i>	<i>196,000</i>	<i>3.7</i>
<b>North East</b>	<b>19,652</b>	<b>2,643,500</b>	<b>9.3</b>

TSOs, and local infrastructure organisations (such as the local CVS or voluntary development agency) tend to be alert to local variations in the

<sup>29</sup> A complete record on the distribution of grants made by foundations is not available. This is because several foundations, large and small, are not yet registering their grant making with 360° Giving. Nevertheless, the situation is improving with 40 grant makers now submitting their data. The available evidence indicates that, collectively, foundations are distributing grants fairly evenly.

levels of funding awarded. And they can be quick to complain if it is felt that their area is getting a raw deal.

Finding out whether one area is doing better than another is not straight forward. Data presented in Table 7.1 suggests, for example, that Northumberland is doing better than other areas: winning 11.3 grants per 1,000 population compared with just 3.7 grants in Stockton on Tees. But the situation is more complicated. As shown in Table 7.2. grants in Northumberland tend to be small, while in Stockton-on-Tees they tend to be larger.

Interpretation is difficult. Tees Valley seems to be less well served than other areas. But it is hard to be certain. In the north of the region, the Community Foundation serving Tyne & Wear and Northumberland has submitted data on nearly 4,000 grants to 360° Giving. While in Tees Valley the two community foundations serving the area are not yet registering their data. But in their annual accounts it is clear that between them 100s of grants were awarded in Tees Valley in 2018.

Table 7.2 **Size of grants awarded by area** (360° Giving, all years)

Area	Under £5,000	£5,000 - £9,999	£10,000 - £49,999	Over £50,000
<b>Northumberland</b>	<b>49.5</b>	<b>24.0</b>	<b>15.4</b>	<b>11.1</b>
<b>County Durham</b>	<b>32.9</b>	<b>32.2</b>	<b>22.4</b>	<b>12.4</b>
<b>Tyne and Wear</b>	<b>39.7</b>	<b>25.7</b>	<b>19.3</b>	<b>15.4</b>
<i>Newcastle upon Tyne</i>	38.1	21.7	21.5	18.7
<i>Gateshead</i>	41.2	25.1	18.6	15.0
<i>North Tyneside</i>	41.4	26.6	16.9	15.2
<i>South Tyneside</i>	42.2	30.6	17.4	9.9
<i>Sunderland District</i>	38.3	30.2	18.8	12.7
<b>Tees Valley</b>	<b>30.3</b>	<b>30.0</b>	<b>21.3</b>	<b>18.4</b>
<i>Darlington</i>	38.9	26.0	17.0	18.0
<i>Hartlepool</i>	29.9	31.6	19.0	19.5
<i>Middlesbrough</i>	24.3	28.9	24.5	22.3
<i>Redcar and Cleveland</i>	34.4	27.9	21.6	16.0
<i>Stockton-on-Tees</i>	27.4	35.0	21.8	15.8
<b>North East</b>	<b>38.7</b>	<b>27.3</b>	<b>19.5</b>	<b>14.6</b>

TSOs which receive large grants often work across area boundaries, further complicating the situation. As shown in Table 7.3. Only 5% of the biggest TSOs operate only at neighbourhood / village level compared with 51% of the smallest TSOs.

Table 7.3 **Area of operation of TSOs of different sizes** (Third Sector Trends 2016)

Size of organisations	Village/ Neighbour- hood	One local authority area	Over a wider area	N=
Micro (£0-£10,000)	51.1	20.4	28.4	313
Small (£10,000-£50,000)	38.2	31.1	30.7	241
Medium (£50,000-£250,000)	24.4	41.8	33.8	213
Large (£250,000-£1m)	11.0	37.7	51.3	154
Big (£1m or more)	4.5	17.9	77.6	67
<b>All TSOs</b>	<b>32.8</b>	<b>30.2</b>	<b>37.0</b>	<b>988</b>

## Analysis

This research indicates that foundations monitor the way they distribute grants within their area of operation and try to spread their funding fairly evenly. In the case of national foundations, this has not always been the case. When Northern Rock Foundation operated in North East England, some national foundations felt that the region was well catered for compared with other areas. Northern Rock Foundation distributed over 4,000 grants between 1997 and 2014 with a total value of about £225m.<sup>30</sup>

Following its demise, national foundations responded quickly. In some cases, funds were transferred to local community foundations to distribute. Noting that few applications were coming in from North East Region, another foundation commissioned research to find out why this was the case to determine what needed to be done about it.<sup>31</sup> Some national foundations continuously maintained a clear presence in the region.

Foundations may distribute grant funding by area fairly evenly. But most grant making is awarded to TSOs which focus attention on discrete constituencies of beneficiaries. Often such grants are given to organisations to work specifically in localities, though relatively little funding could be described as ‘place-based funding’ which takes a holistic view on the improvement of an area.

There are exceptions. For example, Big Local Trusts were established in nine localities in North East England to achieve place-based impact.<sup>32</sup> The Auckland Project in Bishop Auckland, County Durham, is an example

<sup>30</sup> Robinson, F. (2015) *Northern Rock Foundation: history and achievements*, Newcastle: Northern Rock Foundation. [https://www.nr-foundation.org.uk/downloads/NRF-History\\_and\\_Achievements.pdf](https://www.nr-foundation.org.uk/downloads/NRF-History_and_Achievements.pdf)

<sup>31</sup> Pharoah, C., Chapman, T. and Choudhury, R. (2014) *An insight into the future of charity funding in the North East*, London: Garfield Weston Foundation. <https://garfieldweston.org/wp-content/uploads/2017/01/GWF-Insight-into-Future-of-Charity-Funding-in-the-North-East.pdf>

<sup>32</sup> Big Local is a National Lottery Community Fund programme which offered £1m funding and support for residents in each of 150 areas of disadvantage in England to make ‘a lasting and positive difference to their communities’. The emphasis was on ‘lasting change through building social capital’. James, D. *et al* (2015) *Big Local Early Years Evaluation*: <https://localtrust.org.uk/insights/research/big-local-early-years-evaluation/> Big Local Trusts were made in 9 localities in North East England: Lynemouth, Northumberland; Whitley Bay, Jarrow and Gateshead in Tyne and Wear; Hetton-le-Hole and Bishop Auckland in County Durham, and Hartlepool, Stockton on Tees, Middlesbrough and East Cleveland (see locations here: <https://localtrust.org.uk/map/>).



of a major place-based programme.<sup>33</sup> There have been several other smaller scale place-based initiatives in the region including, for example, Hartlepool Action Lab which is led by Joseph Rowntree Foundation.<sup>34</sup>

Placed-based funding has caught the political imagination many times before. Over the last four decades, there have been several major place-based programmes of funding from government such as *Single Regeneration Budget*, *Neighbourhood Renewal Fund* and *New Deal for Communities* amongst others.

While concrete evidence on the long-term benefit of such initiatives has been difficult to pin down, enthusiasm for place-based funding remains strong.<sup>35</sup> The idea of investing in localities was on the radar of many foundations. Given the scale of difficulties facing some areas, some foundations felt that the way forward was to work collaboratively so that a bigger impact could be achieved:

*'At best, we can invest in social capital and capacity for the community to meet its own needs. Everyone goes woah! about Bishop Auckland and thinks "we could do that". But we can't. Our funding is a drop in the ocean.'*

*'The magic is when you've got a big idea or a programme that a number of people can say "yes we want a piece of this and our input will make a qualitative difference on its own or in concert with others". That can have a magnifier effect through co-funded work [and] we get a much bigger return, there's a much greater whole.'*

At one level, many participants in this study shared a view that place-based funding was appealing. Several made reference to The Auckland Project as an example of what they may like to, but could not do.

*'At best, we can invest in social capital and capacity for the community to meet its own needs. Everyone goes woah! about Bishop Auckland and thinks "we could do that". But we can't. Our funding is a drop in the ocean.'*

Not only was it felt that there was insufficient public and private sector infrastructure in place to effect change, doubts were raised as to whether the local third sector was robust enough to deliver such change. As one participant observed: *'There's no point in investing in "cold spots", we have to look at the ecology. You can only fund what's there, not what you imagine is there.'*

When considering funding for specific areas, many foundations argued that the social dynamics of the local third sector were difficult to interpret and harder still to disentangle. Many of the participants in the study spoke of 'dominant voices' in the sector who were effective at pushing certain priorities forward.

*'There are community actors in there, and I think those actors are split between Marmite-type activists who you love or hate, and quieter types who like to get on with things. It's about finding those*

<sup>33</sup> The Auckland Project was initiated by philanthropist, Jonathan Ruffer who has made a significant financial investment in the town. The project has also attracted funding from other foundations, including the National Lottery Heritage Fund. More detail can be found here: <https://www.aucklandproject.org/>

<sup>34</sup> Further information on Hartlepool Action Lab can be found here: <https://www.hartlepoolactionlab.org/>

<sup>35</sup> As one recent think-tank report recently effusively stated: 'Interest in place-based working has gained significant traction in recent years. Shrinking resources and growing demands for devolution have fuelled a desire to empower communities to have greater control over the places they live in. Place-based approaches are characterised by a shift away from centrally-dictated siloed policies, towards holistic solutions which are defined, generated and delivered locally. Funders and philanthropists can play a vital role in place-based working.' Pritchard, N., Clay, T., Yeowell, N. and Boswell, K. (2019) *A framework for place-based funding*, London: New Philanthropy Capital.



*individuals and getting them to help everybody else – throwing lots of money at it doesn't work, small amounts of money given for what they want to do injects a bit of trust – and then bringing in some experts in from the outside once you've got that trust.'*

Many foundations invest in programmes of support so that TSOs can become more confident, capable and effective in their practices. Support can be defined in very broad terms – to include 'core funding' so that TSOs have sufficient resource to run their organisations effectively. When defining the extent to which they will support TSOs, some foundations draw a line here. As one foundation stated: ***'We can't change them, so let's not try.'***

Other foundations take the idea of support a step further and invest in organisational development through direct support, such as training or mentoring, to improve the performance of TSOs. Some foundations (and especially community foundations) deliver support directly through their own training and mentoring programmes, while others invest in delegated support which is delivered by other organisations.

It is clear, which ever route was taken, that there was no longer much appetite for engaging local infrastructure organisations (LIOs) such as councils for voluntary services or voluntary development agencies to deliver generalised support.

As one foundation observed, ***'often they promulgate a "fortress mentality" – they act as gatekeepers and can be obstructive if they don't get to control what's happening on their patch.'***

The shift from delegating generalised support by infrastructure organisations to specialised support was underpinned by a growing awareness that many TSOs were ill-prepared to respond to a changing funding environment. A preferred option for many foundations, therefore, was to invest in discrete aspects of organisational development such as leadership training, the use of digital technologies, or strategic business strategy and planning.

Regional foundations tended to invest time so that they could develop good local knowledge on the situation in areas they funded. This understanding led them to a view that interfering too much with local third sector dynamics could cause argument in the community and potentially amongst foundations:

***'The voluntary sector motors on, regardless, it's messy and I don't mind that. To think otherwise and to imagine that you can manage them in an area is quite dangerous. Coordination [between foundations] is too hard to do. We see each other around.'***

Or as another participant observed:

***'We don't want to undermine other foundations, so we offer support and challenge. Sharing costs and knowledge is a great principle, but we know that can be hard to do.'***

Rather than trying to change or transform places, the objective of most foundations is to ensure that they inject resources carefully: to put some flux into the system to promote beneficial activity. And if the aim is to strengthen the 'social glue', many foundations argue, it is better to put in smaller sums of money in an area – the benefit of which accumulates as community confidence and wellbeing is strengthened.

***'The voluntary sector motors on, regardless, it's messy and I don't mind that. To think otherwise and to imagine that you can manage them in an area is quite dangerous. Coordination is too hard to do. We see each other around.'***

This reflects a general sense of scepticism about investing enormous amounts of money at one time.

***'If a grant funder is giving, say a million pounds in one area over a few years, in the past I might have thought, I don't need to do anything there, but [now] I think that's nonsense: a million pounds in any area is a drop in the ocean. But you have to be careful. because in a lot of these places a million quid is too much. It knocks things out of shape, and a smaller amount of money can generate community action rather than pushing upon them a load of money and all the expectations which go with that.'***

Place-based funding in the past has often had disappointing results when evaluated using conventional metrics. Using indicators such as family wealth, educational achievement and employability, community cohesion and engagement, levels of crime and anti-social behaviour, and so on – problems in some areas appear to be intractable. This is unfortunate as it gives an impression that all the investment that has been put in has come to nothing.

But it is not so simple. Investment in people in particular places does make a difference – but the consequence can be that as they become more able to take command of their own destiny they move away to other places. And when this happens, the local situation can appear to worsen, as rents or housing values fall, more people with complex problems and behaviours move into the area, businesses close because there is insufficient money around to sustain them or the area is unattractive to their customers.

Well-off places with high levels of economic activity, educational achievement, low levels of crime and deprivation and strong social capital are not 'inherently' affluent. The money that people have in those places rarely emanates from local activity – it is *imported* from the work they do in other places – such as businesses in city centres, government agencies, hospitals and universities.

Places are not as bounded geographically as we think – the boundaries are fluid – where the richest areas attract resource and the poorest, sadly, repel it. This is not to argue that place-based funding is a waste of time. It is a good thing to do, providing that aims of the investment are proximate, desirable and achievable to the people who live there.

With arguments such as these in mind, one participant, felt that foundations had a role to play in securing existing resources within the community, rather than create new ones.

***'In every borough, let's say, you've got a social need organisation which has always been there, perhaps inefficient, perhaps needs bumping into the 21<sup>st</sup> Century in a really big way. But the local authority just can't support them anymore, they just don't have the money... so if there's something that the foundations can do to support the ecology of voluntarism, and that's not something that you can take to huge scale, then we must.'***

The reality, for most foundations, was that they were investing in areas where there were higher levels of acute need in the community rather than investing in transforming places. This represented a change of direction in some foundations; from a position taken in the early days of government austerity programme where it was stated that foundations

should not 'step in where government has stepped out' to the current situation where many felt that they no longer have a choice. As one participant observed:

*'You can't say that tackling poverty is government business, because the government is not coming. So you have to help communities find their way out of this, they have to improve, they have to change and they have to help each other, so our job is to build a lot of community fabric – just small amounts of money so that they feel that they can do it themselves.'*

*'You can't say that tackling poverty is government business, because the government is not coming. So our job is to build a lot of community fabric – just small amounts of money so that they feel that they can do it themselves.'*

Many foundations allocate all, or more usually a large proportion of their funding in areas which have been defined as areas of more intense need.<sup>36</sup> But this does not mean that it is place-based funding and also indicates, in summary, that there is only a limited desire amongst foundations to work together strategically to invest in places.

There were three main reasons for this: firstly, that foundations did not feel that they have enough resource to make it work. Secondly, they perceived dangers in investing too much in areas because this raised unrealistic expectations of achievement. And thirdly because too much investment could destabilise relationships locally.

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<sup>36</sup> Usually these areas were defined using the Indices of Multiple Deprivation. For details see: <https://www.gov.uk/government/statistics/english-indices-of-deprivation-2019>

## 8 Conclusion: the strength of weak ties

This report aimed to adopt a 'big picture' perspective on the third sector funding environment in North East England. More than 50 foundations make grants in North East England. Collectively they provide more than £50m a year of grant funding. But this is not enough to meet demand from TSOs. Civil society is a competitive environment with TSOs making claims about the value of what they can achieve.

TSOs garner financial resources to do their work from many sources. They get involved in, for example, fundraising, charge subscription fees, draw upon endowments and investments, get involved in profitable trading activities and take on contracts to deliver public services. But grant funding remains a major source of income for the third sector in the region.

Demand for grants outstrips supply. Consequently, foundations are obliged to make decisions on where their money might best be given to produce good social outcomes. Foundations approach grant making in various ways and they adopt different priorities. No two foundations are the same. And yet, they share a collective sense of responsibility to help the third sector in North East England contribute to the region's social, economic and environmental wellbeing.

The question this report has asked is – should foundations work together more closely, with shared strategic objectives in mind, to maximise the benefit to North East England from their collective effort? The answer, simply put, is no. It has been argued, instead, that by working as autonomous institutions but in complementary ways, foundations achieve more.

### Why would it be hard to agree a shared strategy?

This report shows that adopting a more formal, collectively owned, strategic route is too difficult for foundations to do - and in any case - may create no more social benefit than is produced now. The questions that would need to be addressed to draw up such a strategy are too hard to answer.

It would neither be possible, nor necessarily desirable, for foundations to answer the question – *What is the priority order of issues which need to be attended to in the region?* It is not possible because the third sector is pluralistic – where TSOs make an abundance of claims about what they regard as desirable social outcomes.

TSOs cannot agree on whose claims are the most valid – foundations would struggle to do so too. This is because civil society embraces many views on what a 'good society' should be: some people are eager for radical change, some want to preserve things as they are. Such differences cannot easily be reconciled.

To develop a shared strategy, foundations would need to agree this: *What kinds of practices work best in which contexts?* But this is very

hard to do. Even when TSOs are committed to make a positive difference for the same constituency of beneficiaries with similar outcomes in mind – they find it hard to agree on the most efficacious approach to practice. Indeed, practice preferences are hotly debated by TSOs and in their grant applications they make more or less explicit competitive claims about the value of their practice preferences over others’.

When making grants, foundations have to make judgements about the quality of work they feel a TSO can produce. But it would be difficult collectively to answer the question: ***What does a good TSO look like?*** There are many issues to be taken into account – *does the foundation have a good relationship with the TSO and are they easy to work with? Is the TSO a well organised and managed entity that can be trusted to get on with the job? Is the TSO too important to be allowed to fail – even if it is unfocused and muddles through?*

***Should foundations invest in programmes of work which produce measurable outcomes?*** This question is at the fore of the minds of people who run foundations – but as this report has shown, they do not necessarily come up with the same answers.

Many foundations prefer to trust their own judgement on which TSOs can deliver social benefit and let them get on with the job, while others adopt more stringent measures to control the way their money is spent. Depending on circumstance, either approach can be valid – but to gel approaches into one or several strategies would be hard to achieve.

We could go on with more questions: ***do big grants produce more value? Does unrestricted ‘core’ funding produce better outcomes than restricted funding? Do long-term grants secure more social benefit than ephemeral events?***

These questions cannot easily be reconciled in a funding environment where foundations operate autonomously. And especially so when their own autonomy is framed by underlying political and economic drivers. Quasi governmental, corporate, family and community foundations get hold of financial resources in different ways – which in turn shapes their ethos and mission.

## Civil society as a contested terrain

Focusing on the questions that foundations would need to answer if they chose to work together strategically, misses the point. The point is that the third sector is a fluid, pluralistic and contested terrain. It sits somewhere between three other mighty social entities: the state, business and private life.

The organisations and groups that constitute civil society play many roles which may be viewed as more or less socially valuable – depending upon the viewpoint of the onlooker. TSOs pursue many purposes:

- ***Ameliorating the problems created by the state, business and private life:*** by producing a safety net for those who cannot manage any other way. Examples may include a food bank or dial-a-ride service.
- ***Cementing the social fabric of communities:*** where TSOs contribute to the social glue by bringing people together who

share interests and objectives. Examples might include a community centre or an amateur operatic society.

- **Empowering people to be heard and take control of their lives:** where civil society challenges conventions and brings to the fore the interests of people who feel that they have been served a raw deal. Examples might include an advocacy service or a campaign group.
- **Transforming communities and people's lives:** where TSOs take command of issues with a view to changing the world for the better. Examples might include an employability scheme or an urban regeneration project.

Some foundations are in a position to support all these approaches while others focus on one or two. But there is never enough money around to furnish every claim TSOs make. So foundations must make their own choices.

## Making choices about social priorities

Foundations adopt a wide range of strategic approaches to ensure that money is being dispensed well. It is clear from the research that no two foundations did this the same way, but it is possible to draw some broad generalisations about fundamental principles which influenced approaches to dispensing money and how the impact of such decisions were assessed. These distinctions are illustrated in Figure 8.1.

Figure 8.1 Spending well to maximise impact

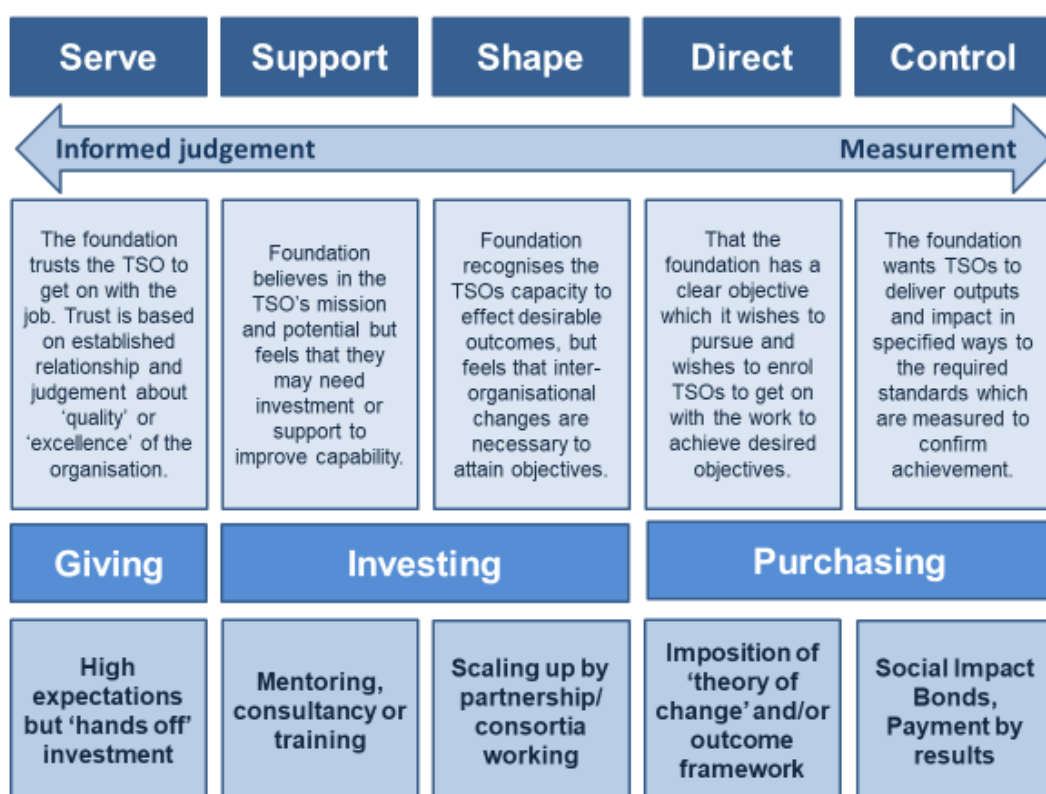




Figure 8.1 categorises the purposes of dispensing money as a spectrum of strategic options ranging from:

- a **‘hands off’** approach where foundations choose to serve the interests of civil society by judiciously awarding grants to TSOs they feel they can rely upon to deliver effective work, to
- a **‘hands on’** approach where foundations play a pivotal role in defining desirable outcomes, determining how to achieve them and ensuring that impact is evaluated.

Some foundations are much more interested in ‘serving’ and ‘supporting’ civil society through most of their grant making while others are ambitious to ‘shape’, ‘direct’ or ‘control’ the way TSOs work.

It must be recognised, however, that it was rarely, if ever, possible to pinpoint specifically within which category an individual foundation was strategically focused in the spectrum of choices available to them. This is because most foundations chose to achieve two or more of the objectives listed – and in some cases they did all of them.

For example, it was not at all unusual for a larger foundation to allocate most of their funds to the task of serving or supporting civil society. But this did not preclude them from experimenting, from time to time, with other approaches.<sup>37</sup>

## The strength of weak ties<sup>38</sup>

This research shows that while foundations cherish their autonomy, they do not make choices in isolation. This is part of the process of taking their responsibilities to society seriously. Foundations do not work in a vacuum – they watch what is going on around them to see how other foundations are working, where they are giving, what they are hoping to achieve and how they assess whether valuable achievements are produced.

Foundations talk to each other, sometimes informally and discretely, sometimes formally - to help them make tough decisions on what to back and what to dismiss. If foundations know that that something is not right for them to fund, it does not necessarily mean it is not right for other foundations. They are careful not to interfere, too much, with the way others work in the belief that this produces a conducive environment where complementary action can flourish.

It might not always feel that way, especially to larger TSOs which need substantial financial resources and have invested effort in a grant application which has failed. But TSOs do not give up easily – they will move on to the next foundation to see if they have more luck.

<sup>37</sup> For example, experimentation with social impact bonds and other forms of social investment. There are good examples of such interventions in North East England. While much enthusiasm has been expressed in such interventions, currently they remain small in number. See, for further discussion, Kuenkel, M. and Hannon, C. with Le Brun, Ed. (2019) *Foundation Horizon Scan: taking the long view*, London: NESTA.

<sup>38</sup> This term is borrowed from an article published in the 1970s on social network theory which focused empirically on conflicts between highly coherent groups of individuals. While my usage of the term is somewhat different from that proposed by Mark Granovetter, the underlying principles are similar in that a distinction is drawn between the strong ties found in close-knit embedded relationships which can exclude others, and ‘weak ties’ across less close-knit acquaintance group relationships with diverse interests: ‘[i]f the innovativeness of central units is shackled by vested intellectual interests (or perspectives) then new ideas must emanate from the margins of the network.’ See Granovetter, M. (1977) ‘The strength of weak ties’, *American Journal of Sociology*, 78:6, 1360-1380.

Furthermore, most larger TSOs do not put all their eggs in one basket – they often seek grant funding from many foundations. This makes it harder to judge which fund has produced what outcome.

Smaller TSOs, and especially those which are entirely led and run by volunteers, need less money – but grants are still important to get things done that can't be delivered on voluntarily given time alone. Most grants are dispensed to organisations such as these. While the financial value of such grants individually and cumulatively is modest, they can help harness the energy of voluntarism by putting flux into the system to allow things to happen.

Funding may be valuable because it can be used for practical purposes, such as the purchase of a minibus or sports kit. Or it may be valuable because it makes a group feel that it is trusted, that its purpose is recognised, or that the area where they work has not be overlooked. Value is hard to judge.

Bigger TSOs are more likely to get involved in delivering 'hard outcomes' which can be measured in some way. Smaller TSOs are more likely to produce 'soft outcomes' which are harder to assess. But neither small nor large TSOs have a monopoly over specific forms of value. All TSOs, arguably, make a contribution to financial value, use value, social value and existence value – but perhaps to different degrees depending upon their scale, how they work and what they want to achieve.

Foundations wrestle with ideas surrounding what constitutes value – but they do this in different ways from each other. They also use different approaches within their own organisations, depending upon the purpose of grants they award.

Collectively, however, there is a commonly held view that this value should be spread around – amongst beneficiary groups and across spatial areas. Most foundations (whether they are based in the region or operate nationally) do this carefully within their own realm of influence – but they also do so with an eye on the contribution of others.

This is beneficial in two ways – firstly, and most obviously to ensure that some areas of benefit or place are not left alone. And secondly to ensure that organisations and areas are not overwhelmed with investment which could inadvertently knock TSOs and the local funding equilibrium out of shape.

## **Ways of working together well**

Some foundations work together formally, but such initiatives only constitute a small element of their overall activity. Most foundations choose not to embrace the idea of working together 'strategically' because this could undermine their autonomy. But they believe strongly in working in complementary ways and being good neighbours to one another.

There are practical elements to this approach. The time taken to formalise relationships, many feel, is an impediment. ***'Longer-term strategic partnerships tie your hands, make relationships unduly complicated. It can become pretty fraught.'***

To work together in more complementary ways is less politically 'fraught', less intrusive on staff time and can mean that foundations can be more responsive collectively to good opportunities. As one foundation observed: *'Often we can just do it [i.e. work together] when it seems like it's a good idea to work with others. Chalk and cheese often go together quite well.'*

This participant went on to explain that good relationships amongst foundations were based on some very simple principles:

*'You have to know how to get past things going wrong. Know when to give the benefit of the doubt [and] be tolerant of the foibles of each other – you know – we wouldn't do it that way, but we can still work together. It's about a common purpose, about relationships, we're human beings – not positions in organisations.'*

*'You have to know how to get past things going wrong. Know when to give the benefit of the doubt and be tolerant of the foibles of each other... It's about a common purpose, about relationships, we're human beings – not positions in organisations.'*

By keeping ties loose, relationships are stronger. This is because retaining autonomy is important to foundations. And it is not surprising that they wish to protect that autonomy given that they are in a stronger position in this respect than many organisations in the private or public sectors.

*'Foundations don't really mind what people think of them – we don't have to, we're probably amongst the most autonomous bodies. We don't really have any masters – so we're in a powerful position to choose.'*

But it is power that has to be used carefully and not in isolation from what other foundations were doing around them.

*'You'll be cutting a life-line from organisations without giving them any chance to prepare, and so I think you have to know your place, it's not about the egos of the trustees. It's about knowing your place in the funding ecology, knowing where you fit.'*

## Appendix 1: Definitions of funding organisations

The institutions which support civil society, illustrated in Figure 3.2, are defined briefly below.

- **The state:** injects significant levels of resource into civil society via national government departments such as the Department of Work and Pensions and major public bodies such as the National Health Service and Local Authorities. Finances arrive via contracts to deliver public services and by grants to support organisations or to undertake projects. Most government funding is injected to meet statutory objectives in fields such as health, education and social welfare. But there is also room for pilot or project funding through grants or contracts such as the National Citizen Service. At a local level, small grant funding is also common to voluntary and community groups by local authorities, health authorities, fire, ambulance and police authorities and so on.
- **Corporate Social Responsibility** programmes are generally directly funded by large businesses such as banks, telecommunications, pharmaceutical and oil companies. They provide both financial and in-kind support to civil society in, for example, sponsorships of major arts and heritage exhibitions, social programmes for young people, mentoring and employee supported volunteering initiatives and so on. In this study, *Sage Foundation* represented CSR funding of this type.
- **Corporate Foundations** are independent charitable foundations which are largely or wholly funded by a percentage of the pre-tax profits of large companies. While such foundations are independent entities which operate at arms-length from their corporate funder, they generally adopt and display elements of corporate branding. In this study, examples include *Greggs Foundation*, *Barbour Foundation*, *Lloyds Bank Foundation for England and Wales*, *Virgin Money Foundation* and *Northstar Ventures*.
- **Individual Philanthropy** or 'direct philanthropy' occurs when wealthy individuals invest heavily in charitable activity in a focused way. Often the principal focus is on a specific geographical area. Historically, there are many such examples of area-based interventions in the building of model towns and villages such as Saltaire, New Earswick or Port Sunlight. In North East England a current example is significant investment in Bishop Auckland, County Durham, by The Auckland Trust. In contemporary initiatives of this kind, the leverage of other sources of funding strengthens and deepens the volume of investment.
- **Family Foundations** engage in charitable grant giving by drawing upon the proceeds from significant endowments. Such foundations tend to operate independently because governance is largely separated from the commercial interests that produced the wealth to establish a foundation - although not necessarily from the original benefactors. Examples in this study include: *The Ballinger Trust*, *Esmeé Fairbairn Foundation*, *Garfield Weston Foundation*, *The Henry Smith Charity*, *Joseph Rowntree Foundation*, *Milfield House Foundation*, *Sainsbury Family Trusts*, *Sir James Knott Trust*, *Pilgrim Trust*, *The Tudor Trust*, *Wolfson Foundation*.
- **Community Foundations** make grants by drawing on funding from a range of sources including endowments they have built or manage, from sums of money transferred from other foundations or the state to manage and from fundraising activities in the area where they operate. As such they provide an alternative for individuals, families and businesses to establish their own foundations. Community Foundations are not just grant makers, however, as a movement they are also committed to the principal of being accountable to, engaging with and standing up for their community. Examples in this study include *Community Foundation serving Tyne & Wear and Northumberland*, *County Durham Community Foundation* and *Tees Valley Community Foundation*.

- **Fundraising Foundations** rely primarily upon fundraising from the general public to award grants to organisations and groups to engage in charitable activity – consequently, they tend not to establish or depend upon permanent endowment funds. Such foundations are generally associated with specific causes or they harness their fundraising campaigns through their association with particular activities such as sport. In this study, examples include *Sport Relief*, *Comic Relief* and *BBC Children in Need*.
- **The National Lottery** provides significant resources for civil society. Lottery funds are dispensed in North East England via four distributors: The *National Lottery Community Fund*, *The National Lottery Heritage Fund*, *Sport England* and *Arts Council England*.<sup>39</sup> Activity is funded in a range of ways from small grants to local groups to major initiatives which are managed internally or delegated to intermediaries. Its resources are gleaned primarily from the general public when purchasing lottery products via an independent provider: Camelot Group.<sup>40</sup>
- **Grant aided foundations**: are foundations which have a specific remit to attend to social, economic, cultural or environmental issues. They may be funded from one or a mix of sources including, for example, the state, national lottery and charitable foundations. Often they exist for stipulated periods of time. Examples include foundations such as NESTA or the Educational Endowment Fund. In this study *Power to Change* represents an example of a grant aided foundations.

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<sup>39</sup> For detail on the whole family of lottery fund distributors see:

<https://www.lotterygoodcauses.org.uk/funding/distributors>

<sup>40</sup> Further information on Camelot Group can be located here: [www.camelotgroup.co.uk/about-us/our-mission](http://www.camelotgroup.co.uk/about-us/our-mission)

## **Appendix 2: Participants in the study**

### **Foundations involved in the study**

Ballinger Family Trust  
The Barbour Foundation  
Children in Need  
Comic Relief  
Community Foundation serving Tyne & Wear and Northumberland  
County Durham Community Foundation  
Esmée Fairbairn Foundation  
Garfield Weston Foundation  
Greggs Foundation  
The Henry Smith Charity  
Joseph Rowntree Foundation  
Lloyds Bank Foundation England and Wales  
Middlesbrough and Teesside Philanthropic Foundation  
Millfield House Foundation  
National Lottery Community Fund  
Northstar Ventures  
The Pilgrim Trust  
Power to Change  
Sage Foundation  
Sainsbury Family Charitable Trusts  
Sir James Knott Trust  
Tees Valley Community Foundation  
The Tudor Trust  
Virgin Money Foundation  
Wolfson Foundation

### **Additional seminar participants**

Association of Charitable Foundations  
The Bernard Sunley Charitable Foundation  
The Bradbury Foundation UK  
The Dulverton Trust  
Joseph Rowntree Charitable Trust



## NOTES



